

## 18. RELATIONSHIP OF BUDGET AUTHORITY TO OUTLAYS

Budget authority is the authority provided by law to incur financial obligations that will result in outlays.<sup>1</sup> Budget authority must be provided in laws, in accordance with Article I, Section 9, of the Constitution: “No money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law...” Hence, Federal agencies cannot obligate the Government to make outlays until budget authority has been provided to them by appropriation.

New budget authority for most Federal programs is provided in 13 annually enacted appropriations acts.<sup>2</sup> However, new budget authority for more than half of all outlays is made available through permanent appropriations under existing laws. This consists mainly of 1) budget authority for trust funds, which for most trust funds is automatically appropriated under existing law from the available balance of their receipts and equals the estimated annual obligations of the funds; 2) interest on the public debt, for which budget authority is automatically provided under a permanent appropriation enacted in 1847 and equals interest outlays; and 3) the authority to spend offsetting collections credited to appropriation or fund accounts.

Not all of the new budget authority for 2002 will be obligated or spent in 2002:<sup>3</sup>

- Budget authority for most trust funds comes from the authority of these funds to spend their receipts (limited, in most cases, by the estimated obligations). Any unexpended balances remain available to these trust funds indefinitely in order to finance benefits and for other purposes specified by law.
- Budget authority for most major construction and procurement projects covers the entire cost estimated when the projects are initiated, even though work will take place and outlays will be made over a period extending beyond the year for which the budget authority is enacted.
- Until the 1998 budget, budget authority for large portions of the subsidized housing programs was

equal to the Government’s estimated obligation to pay subsidies under contracts, which extended for periods of up to 40 years. These contracts are now for one year only and the budget authority requirements are therefore now appropriated year-by-year.

- New budget authority for most other long-term contracts covers the estimated maximum obligation of the Government.
- Budget authority for most education and job training activity is appropriated for school or program years that begin in the fourth quarter of the fiscal year. Most of these funds result in outlays in the year after the year of appropriation.
- Government enterprises are occasionally given budget authority for standby reserves that will be used only in special circumstances.

As a result of these factors, a substantial amount of budget authority carries over from one year to the next. Most of this is earmarked for specific uses and is not available for new programs. A small part may never be obligated or spent, primarily the amount for contingencies that do not occur or reserves that never have to be used. Also, some budget authority results in an exchange of assets for which no corresponding outlays are scored; budget authority backing International Monetary Fund arrangements to resolve international monetary crises is an example.

As shown in the following chart, \$363 billion of the outlays in 2002 (19 percent of the total) will be made from budget authority enacted in previous years. At the same time, \$407 billion of the new budget authority proposed for 2002 (20 percent of the total amount proposed) will not lead to outlays until future years. Although outlays in 2002 are, coincidentally, very nearly equal to budget authority for that year (97.8 percent), this coincidence only occurs because the prior-year authority that will produce 2002 outlays (\$363 billion) nearly equals the new 2002 authority that will not be spent until future years (\$407 billion). Thus, in general, the total budget authority for a particular year is not directly indicative of that year’s outlays, since it combines various types of budget authority that have different short-term and long-term implications for budget obligations and outlays.

<sup>1</sup>The relationship of budget authority, obligations, and outlays is discussed generally in Chapter 23 of this volume, “Budget System and Concepts and Glossary;” for most individual budget accounts, this relationship is traced in a “program and financing” schedule [table] in the budget Appendix volume.

<sup>2</sup>Some or all of the 13 “regular” appropriation bills have sometimes been consolidated into a few acts or a single act.

<sup>3</sup>This subject is also discussed in a separate OMB report, “Balances of Budget Authority,” which can be purchased from the National Technical Information Service shortly after the budget is transmitted and is made available on the internet, with the other budget documents.

**Chart 18-1. Relationship of Budget Authority to Outlays for 2002**

(Dollars in billions)

